

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Nava, et al. Analyst: Angela Raygoza Bill Number: AB 62  
 Related Bills: See Prior Analysis Telephone: 845-7814 Amended Date: July 3, 2007  
 Attorney: Douglas Powers Sponsor: \_\_\_\_\_

**SUBJECT:** Disaster Loss Deduction/Excess Loss Carryover/2006 Calendar Year Ventura County Wildfires/June 2007 El Dorado County Wildfires

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED

X May 15, 2007, STILL APPLIES.

X OTHER – See comments below.

**SUMMARY**

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the wildfires that occurred in Ventura and El Dorado Counties.

**SUMMARY OF AMENDMENTS**

The July 3, 2007, amendments made the following changes to the bill:

- Added the El Dorado County wildfires of June, 2007, to the list of specified disasters,
- Added double-jointing language that would resolve chaptering conflicts between this bill, SB 38 (Battin), and SB 114 (Florez),
- Added co-authors.

This analysis does not address the bill's changes to the Property Tax Law, as they do not impact the department or state income tax revenue. As a result of the amendments, the "This Bill" and "Revenue Impact" discussion, as provided in the department's analysis of the bill as amended May 15, 2007, have been revised. The remainder of that analysis still applies.

Board Position:

\_\_\_\_\_ S      \_\_\_\_\_ NA      \_\_\_\_\_ NP  
 \_\_\_\_\_ SA      \_\_\_\_\_ O      \_\_\_\_\_ NAR  
 \_\_\_\_\_ N      \_\_\_\_\_ OUA      X PENDING

Legislative Director

Date

Brian Putler

7/9/07

## POSITION

Pending.

## ANALYSIS

### THIS BILL

This bill would add the wildfires that occurred in Ventura County during the 2006 calendar year and in El Dorado County during June, 2007, to the current list of specified disasters under the Personal Income Tax Law and the Corporation Tax Law.

This bill would allow special disaster treatment of losses sustained as a result of those wildfires. Specifically, this bill would allow a taxpayer to elect to claim the loss either in the year the loss occurred or in the year preceding the loss. If a taxpayer elects to take the loss in the preceding year, this bill would allow the taxpayer to file an amended return immediately for the prior year.

This bill also contains double-jointing language that would incorporate provisions from SB 38 (Battin) and SB 114 (Florez) that would allow taxpayers affected by the fires that occurred in Riverside County in 2006, and those affected by the freeze of 2007, disaster loss treatment for their losses.

## ECONOMIC IMPACT

This revenue impact covers the Ventura and El Dorado County Wildfires as discussed below.

### Revenue Estimate

Based on data and assumptions discussed below, the Personal Income Tax and Corporation Tax revenue impact from this bill would be as follows:

Revenue Analysis for AB 62 – as amended 7/3/07 Operative for tax year BOA 1/1/05					
Fiscal Year	2005-06	2006-07	2007-08	2008-09	Cumulative Impact
Ventura County- Disaster Relief	Loss < \$150,000	Gain < \$150,000	Gain < \$150,000	none	Loss < \$150,000
El Dorado County- Disaster Relief	none	Loss < \$1M	Gain < \$250,000	Gain < \$250,000	Loss < \$500,000

This analysis does not consider any possible changes in employment, personal income, or gross state product that could result from this bill.

## Revenue Discussion

### Ventura County Fire

Information from the California Department of Fire shows an estimated \$1.6 million of real property losses for Ventura County. Assuming 20% of such damages would NOT be reimbursed by insurance, but would exceed the 10% of adjusted gross income threshold, an estimated \$330,000 of potential tax deductions would be subject to special treatment as disaster losses ( $\$1.6 \text{ million} \times 20\% = \$330,000$ ). If only half of such casualty losses were reported on 2006 tax year returns AND all excess amounts were deducted as disaster losses on an amended 2005 tax return, roughly \$10,000 in accelerated tax refunds would result ( $\$330,000 \text{ deductions} \times 50\% \text{ deductions applied to 2005 tax year} \times 6\% \text{ tax rate} = \$10,000 \text{ revenue loss}$ ).

The insignificant revenue gains in the later years are a matter of timing. Taxpayers that choose to file an amended return to report the casualty loss immediately will have a higher tax liability in the subsequent income years.

### El Dorado County Fire

Information from El Dorado county officials and the California Department of Forestry & Fire Protection along with assumptions about the impacted population, including insurance coverage and the taxability of income, shows total structural damages to be \$142 million. Assuming 20% of those damages would NOT be reimbursed by insurance and would exceed the 10% the adjusted gross income threshold, roughly \$28 million of otherwise classified casualty loss deductions would be subject to special treatment as disaster losses ( $\$142 \text{ million} \times 20\% = \$28 \text{ million}$ ). This estimate assumes half of the targeted fire casualty losses are reported in the year the event occurred and the remaining 50% are deducted as disaster losses on an amended tax return, an estimated \$1 million in accelerated refunds would result ( $\$28 \text{ million} \times 50\% \text{ deductions applied to preceding tax year} \times 6\% \text{ tax rate} = \$852,000 \text{ revenue loss}$ ).

The insignificant revenue gains in the later years are a matter of timing. Taxpayers that choose to file an amended return to report the casualty loss immediately will have a higher tax liability in the subsequent income years.

## **LEGISLATIVE STAFF CONTACT**

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